Audit Committee Update for Tonbridge & Malling Borough Council

Year ended 31 March 2014

March 2014

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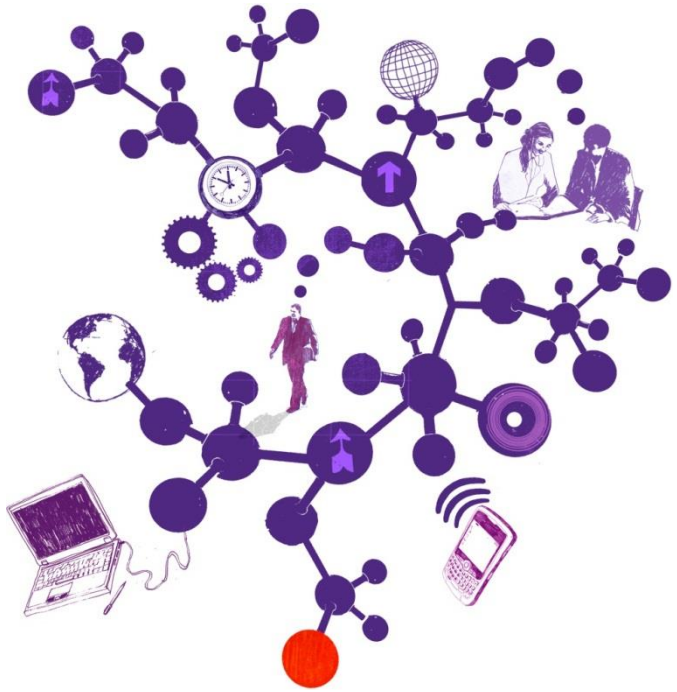

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at www.grant-thornton.co.uk/en/Services/Public-Sector/ and where you can also download copies of our publications.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at March 2014

	Planned date
2013-14 accounts audit plan Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the Council's 2013-14 financial statements.	Our accounts audit plan is included as a separate item on today's agenda.
2013/14 interim accounts audit Our interim work has included: • work to understand the Council's overall control environment and the framework of controls for financial systems; • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement; • review of the Council's policies and procedures for journal entries and testing of journal transactions for the first ten months of the financial year; • other early substantive testing where appropriate. The conclusions from our interim audit work are reported in our accounts audit plan.	February 2014
2013-14 final accounts audit A member of the Council's finance team attended Grant Thornton's 2013/14 workshops for preparers of local government accounts in February/March 2014. We have discussed a number of issues relating to 2013/14 accounts with the finance team. We have also shared Grant Thornton briefing papers on key issues for the 13/14 accounts and issues identified nationally from the audit of 12/13 accounts. Further details of the following key issues are included under "Accounting and audit issues" later in this progress report;	Opinion by 30 September 2014

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Progress at March 2014

	Planned date
• Revaluing your assets – clarification of accounting guidance • Estimating the impact of business rate appeals • Accounting for pensions. We will continue to liaise with officers on accounts issues during the closedown period. Our detailed work to audit the Council's 2013-14 financial statements will begin in June 2014.	
Value for Money (VfM) conclusion Our VfM conclusion is based on the following criteria specified by the Audit Commission: • the organisation has proper arrangements in place for securing financial resilience; • the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. Our work will be based on a risk assessment to identify areas of risk to our VfM conclusion. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report.	Value for money conclusion by 30 September 2014
Other work ***Cyber security workshop*** Cyber security remains a high profile issue in local government, with several high profile web security breaches affecting both the public and private sectors widely reported in recent months. On 15 January 2014 Grant Thornton hosted a cyber security event for public sector bodies in London and the Couth East. The event was attended by the Council's IT manager.	

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Progress at March 2014

	Planned date
The event considered: • the complex regulatory environment affecting the public and corporate sectors, and the plethora of different guidelines and standards; • what good data security looks like and how to strengthen arrangements at local government bodies, targeting data security policies at the areas of greatest risk; • the threats to data security and how these threats are often internal to public sector organisations rather than external; • the consequences of data security failures in terms of financial costs, service disruption and reputational damage. It is intended to hold a follow up cyber security event later in the year. ***Kent Audit Committee Chairs meeting*** On 18 March 2014 Grant Thornton facilitated a meeting for the chairs and vice-chairs of Kent Audit Committees. The meeting considered the quality of Audit Committees in Kent and how to improve these. It also provided an opportunity for attendees to network with chairs and Vice-Chairs from other authorities. The event was well received. Going forward it is intended to run a similar event roughly twice a year.	

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79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report **http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf** is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggests some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. These include a relentless focus on generating additional sources of revenue income and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Challenge questions

- Has the Council considered the report, including the good practice checklist and case studies in strategic financial planning, financial governance and financial control?

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Helping members understand local authority accounts

Grant Thornton

A guide to local authority accounts

This guide is designed to help members of audit committees discharge their responsibilities for the financial statements. It aims to help them understand and challenge the accounts, supporting notes and other statements.

Local authority audit committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. They also play a key role in ensuring accountability and value for money are demonstrated to the public.

However, local authority financial statements are complex and can be difficult to understand. They must comply with CIPFA's Local Authority Code of Practice, which is based on International Financial Reporting Standards (IFRS), and also with the requirements of accounting and financing regulations of central government. IFRS provides a comprehensive framework (over 3,000 pages of mandatory requirements) for the production of financial statements in the public and private sector and this framework is continually being refined.

We have prepared this guide for members to use as part of their review of the financial statements. It explains the key features of the primary statements and the accompanying disclosure notes that make up a set of financial statements. It also includes key challenge questions to help members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position.

Copies of the guide will be provided to members of the Council responsible for approving and issuing the authority's financial statements.

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Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: First impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report http://bit.ly/1eLlq7L focuses on the financial and managerial aspects of welfare reform.

This involves:

- understanding the challenges currently facing local government and housing associations in regard to welfare reform, and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes;
- reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform;
- providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- in general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- so far the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- looking ahead further reforms such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Council kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Council carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?

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Governance in an age of austerity

Grant Thornton

Working in Tandem: Local Government Governance Review 2014

As authorities seek new and innovative ways to reduce costs and deliver front-line services in an age of austerity effective governance frameworks are essential to support sound decision making.

Our third annual review into local authority governance http://bit.ly/1dHJZGP aims to assist senior management and elected members of councils and fire & rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Focusing on three particular aspects of governance – risk leadership, partnerships and alternative delivery models (ADMs) and public communication – the key messages from the report are:

- while more than 90% of our survey felt their organisations encouraged well-managed risk taking and innovation, almost 40% felt there was a lack of clear leadership from members about risk appetite
- almost one third of respondents had concerns about the blame culture in their organisation
- the associated risks of partnership working and ADMs are not being adequately dealt with by existing governance arrangements: almost one third of respondents did not think that all parties shared the same understanding, or spoke the same language about risk. Further, one quarter doubted whether members and officers were clear about their individual and collective roles and responsibilities
- more than one third of respondents said the annual governance statement failed to explain how the authority handled risk; 40% of respondents felt their explanatory foreword did not help the public to understand the authority's financial management
- local authorities are working hard to improve communication with the public, but could still be more proactive, for example through annual reports and social media

Alongside the research findings the report highlights examples of good practice and also poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Challenge questions

- Has the Council considered the report, including the good practice examples and the questions for management and members?

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Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/ discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating if they are to remain financially resilient and commission better quality services at reduced cost.

The report:
- outlines the main alternative delivery models available to local authorities;
- aims to assist other authorities as they develop their options and implement innovation strategies;
- considers aspects of risk.

It includes
- a number of case studies summarising how public services are being delivered through alternative service models;
- three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model.

Challenge question
- Has the Council considered the report, including the checklist and case studies?

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Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research: Tough Times 2013

The Audit Commission's latest research, http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf shows that England's councils have demonstrated a high degree of financial resilience over the last three years despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman, said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Issues to consider/challenge questions:

- How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

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Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- local authorities will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- local authorities will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

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Revaluing your assets – clarification of accounting guidance

Accounting and audit issues

Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014;
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued;
- general information on market prices and building costs;
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates;
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year;
- the class of asset is not disclosed separately in the property, plant and equipment note.

Challenge question
Has the Council considered the clarification of the Code requirements for 2013/14?

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Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need;
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently;
- where appeals have not been made;
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is the Council confident of obtaining the information it needs from the VOA?
- Has the Council recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has the Council provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is the Council planning to revisit its provision and contingent liability before the audit opinion is issued?

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Accounting for pensions

Accounting and audit issues

Accounting for and financing the local government pension scheme costs

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively.

The main changes we expect to see are:
- a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES);
- more detailed disclosures.

We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

Challenge questions:
- Is the Council confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?

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Changes to the public services pension scheme

Accounting and audit issues

Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited.

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.
The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Challenge questions:

- Is the Council aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the Council taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the Council liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?

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